

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Market Test Of Experimental Product -  
Every Door Direct Mail Return

Docket No. MT2011-3

Comments of the Public Representative

(December 5, 2011)

## Background

On November 18, 2011, the Postal Service filed a request for an exemption from the \$10,000,000 annual revenue limitation during the test of an experimental market dominant product. ("Request").<sup>1</sup> The Commission issued Order No. 998 on November 23, 2001, where it requested parties to submit comments on whether the Postal Service's Request was consistent with 39 U.S.C. 3641(e)(2), which authorizes the Commission to exempt the Postal Service from the \$10 million annual revenue limitation ("revenue threshold") provided the exemption is not anticipated to result in annual revenues greater than \$50 million in annual revenue ("revenue cap") and if it determines that the experimental product is:

- A. likely to benefit the public and meet an unexpected demand;
- B. likely to contribute to the financial stability of the Postal Service; and
- C. not likely to result in unfair or inappropriate competition;

and is consistent with 39 U.S.C. 3641(g), which requires the Commission to adjust the revenue limitations each year by the change in the Consumer Price Index.

The Postal Service states that between March 31, 2011, when it began providing Every Door Direct Mail Return (EDDM-R) and September 30, 2011, a period of six months, EDDM-R earned approximately \$5 million dollars, a monthly average approximately equal to \$800,000 and a daily average of approximately \$24,000. It also states that during the month of October 2011, EDDM-R earned over \$2 million, a daily average of approximately \$65,000, and that between November 1 - 11, EDDM-R earned over 1.3 million, a daily average of approximately \$118,000. Since its initial

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<sup>1</sup> Request of the United States Postal Service for Exemption from Revenue Limitation on Market Test of Experimental Product – Every Door Direct Mail Retail (Request,) November 18, 2011.

provision, EDDM-R has earned approximately \$8.5 million through November 11, 2011. *Request at 2.*

Since the test began March 31, 2011, it could continue 49 days in 2011, 365 days in 2012, and 89 days in 2013. Assuming daily revenue since the date of the Request filing is approximately \$100,000, which is the average of the two daily amounts calculated immediately above, the following table estimates the revenue the EDDM-R will earn in 2011, 2012, and 2013, along with the corresponding annual percentage change in the CPI-U using the Commission's method for this calculation, and the inflation adjusted annual maximum. The inflation value for 2011 is the percentage change in inflation from the month following the month in which the PAEA was passed into law (2007) and 2011, making 2008 the first year in which inflation adjustments would be applied to the revenue threshold or the revenue cap.<sup>2</sup>

EDDM-R Revenue and Annual Revenue Thresholds and Caps By Year				
Year	EDMM-R Revenue (\$M)	Percent Change in CPI-U (%) From Year Before	Inflation Adjusted Annual Threshold (\$M)	Inflation Adjusted Cap (\$M)
2007	0.000	n/a	n/a	
2008	0.000	2.85	10.29	51.43
2009	0.000	3.84	10.98	53.40
2010	0.000	1.00	11.69	53.21
2011	13.40	1.02	12.64	54.08
2012	36.50	1.02	14.01	55.40
2013	08.90	1.03	15.98	57.02

<sup>2</sup> The percentage change in the CPI-U for 2011 is assumed to be the average of its percentage change between June (when it rose above 2%) and October. The percentage change allowable for 2011 is the allowable percentage change for 2008, 2009, and 2010 applied to new maximum for each of those years.

According to these estimates, revenue from EDDM-R will exceed the annual inflation adjusted revenue threshold in 2011 and 2012, but will remain substantially below the annual inflation adjusted maximum revenue during the life of the experiment.<sup>3</sup>

Since it seems unlikely that EDDM-R will exceed annual maximum revenue cap in year of the market test, if the Commission agrees that the inflation adjusted threshold revenue would be approximately \$12.5 million in 2012, and it lifts the annual limitation above that, the remaining issues are limited to whether lifting the revenue limit on EDDM-R is likely to:

- benefit the public and meet an unexpected demand,
- contribute to the financial stability of the Postal Service, and
- result in unfair or inappropriate competition.

The Public Representative (PR) will address each of these issues in its Comments.

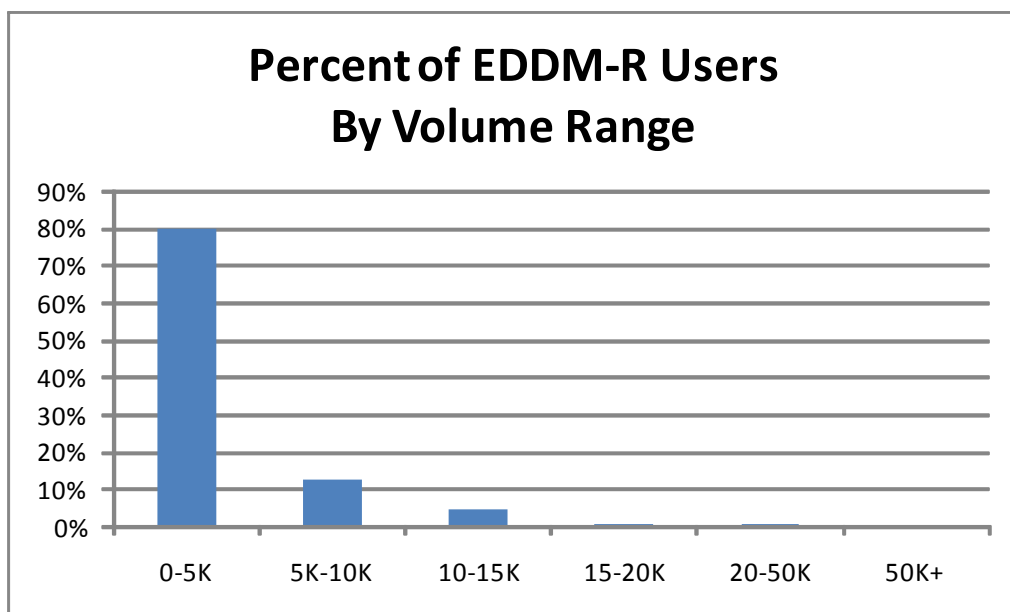
#### Will EDDM-R Benefit the Public and Meet an Unexpected Demand?

The Postal Service submits data, required by the Commission, and makes arguments, that support the claim EDDM-R has benefited the public and met an unexpected demand. It states that “[t]here has been widespread interest in the product. As of November 8, 2011, over 18,000 small businesses had registered for participation in the market test.” *Petition at 3*. However, only 1,665 of them actually used EDDM-R. *Docket No. MT2011 – 3, Amended Every Door Direct Mail - Retail Data Collection Report for FY 2011, Quarter 3, August 26, 2011*. It is hard to conclude that there has been widespread interest in EDDM-R.

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<sup>3</sup> The revenue estimates are based on the rapid growth in revenues during October and November, while the inflation estimates are allowed to increase by only .5% per year. Thus, the probability of EDDM-R revenue exceeding \$36.5 million in 2012 is low.

The Postal Service also says that EDDM-R “has enabled small and medium-sized business to communicate...with their target area.” *Id.* at 3.



The histogram above is reproduced from data supplied by the Postal Service which shows the volume of EDDM-R mail sent between April 1, 2011 and July 1, 2011. It shows that 80 percent of customers sent 5,000 pieces or less, and 90 percent of customers sent 10,000 pieces or less. *Docket No. MT-2011-3, USPS filing, “AM PRC EDDMR Data FY11Q3.xls” (Data Filing)*. This supports the Postal Service’s statement that EDDM-R is mostly used by small and medium-sized businesses.

The data also support the conclusion that EDDM-R has met an unfilled need. The Postal Service states that “87 percent of the revenue from EDDM-R is from new mailers.” *Request at 4*. In addition, its data filing shows that only 8.6 percent of EDDM-R customers used a different postal product or postal service for marketing in the 90 days prior to mailing EDDM-R. *Ibid.* Thus, 87 percent of revenue was

generated by approximately 91 percent of EDDM-R users.<sup>4</sup> Provided that that when users said they “did not use a different Postal advertising product, they were including advertising products offered by providers other than the Postal Service,” the PR concludes that EDDM-R has met the first of the three criteria for the Commission to approve its Request. However, the Commission should determine the exact meaning of the statement in quotes.

#### Will EDDM-R Contribute to the Financial Stability of the Postal Service?

The table above estimates the Postal Service will earn approximately \$59 million during the, two year, EDDM-R experiment, or approximately \$29 million per year. Without cost data, it is not possible to conclude that EDDM-R will provide a net contribution to the Postal Service and improve its Financial Stability. Given the small revenues involved, it is unlikely that EDDM-R will make a significant positive or negative net financial contribution.

#### Will EDDM-R Result in Unfair or Inappropriate Competition?

The Postal Service states that EDDM-R users “typically use MSPs [mail service providers] for services including mailpiece design, printing, mail preparation, and entry....EDDM-R has provided an opportunity for MSPs to attract new customers, as well as expand their business with existing ones.” *Request at 4*. If this statement is accurate, the Commission would be able to easily conclude that EDDM-R does not result in unfair competition, which was one of the major concerns expressed by parties commenting on the original request for an approval of this market test. However, the

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<sup>4</sup> This conclusion rests on the belief that when users said they did not use a different Postal advertising product, they were including advertising products offered by providers other than the Postal Service. The Commission should determine the exact meaning of the Postal Service data term entitled “Customers Also Using a Different Postal Product/Service.” *Data Filing, Sheet: “Status”*

Postal Service does not document its claim that MSPs have benefited from EDDM-R. It is probably anecdotal, and does not provide solid evidence EDDM-R has not resulted in unfair competition. The PR concludes that it is unlikely that EDDM-R has caused market disruption or has been a source of unfair competition, because it's footprint is so small.

### Conclusion

The PR does not oppose the Postal Service's Request to lift the annual revenue threshold for EDDM-R. It's expected revenue may be more than twice as large as the annual revenue cap in 2012, but averaging the 3 annual caps and estimated revenues for a two year period equal to the length of the market test, yields an average annual revenue estimate of \$19.6 million and an annual cap of \$55.5 million, well below one-half of the annual cap. The Postal Service also does not provide strong support for its claim that EDDM-R has filled an unmet market need, will contribute to the financial stability of the Postal Service, or has not resulted in unfair competition. Nevertheless, the evidence does not support the opposite of these claims, and the small size of this product makes it unlikely EDDM-R will bring great benefit or great harm to the Postal Service, its customers, or its competitors.

The Public Representative respectfully submits these comments for consideration.



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